Direct Competition Lowers Costs

Posted by **Pierluigi Oliverio** on Monday, December 28, 2009

On Nov. 3 at the city council meeting, I removed an item from the consent calendar. The agenda item was asking for council approval to spend $286,700 for software. This particular software would help the housing department manage its loan program. Several years ago the Housing Department purchased software to manage this data, however, it never worked and we ended up going through litigation for eight years. (I blogged on this litigation in a June 29 post here.)

During the litigation process, I wanted to understand how we came to purchase something that didn't work. I sat down with the staff from the Housing Department to become familiar with the current process and its shortcomings in managing the housing loan data in Excel spreadsheets. Other cities, such as Long Beach, Los Angeles, San Diego and San Francisco, all use Excel to manage this housing loan data.

I understood the efficiency that could be gained by using a different solution over Excel. My question however, was not about efficiency but rather if it was worth the City spending six figures-plus on something during a recession. Basically, is it worth it? We don't really analyze Return On Investment (ROI) in government as in private sector when it comes to adopting new technology. Efficiency gains by technology usually means you can do more with less people, and thus creates hard dollar savings. But that typically does not happen from what I have seen so far in government.

Personally, I thought Google Apps would have been a better and much more affordable solution then Excel spreadsheets. As you may know, Google provides business applications that allow data to be created, stored and shared via the web for $50 per user per year. These applications can be used by more than one person at different locations at the same time. This technology allows collaboration from anywhere with data security and restriction of who is allowed to view/edit data, and includes automatic email updates when data is changed. I use Google Apps for documents that I create and share.

In November, I recognized the name of the vendor who was selected by the Housing Dept. for this $286,700 purchase. However, I did not see the vendors who directly compete with this company. I wanted to know if these companies had been notified of the Request for Proposals (RFP). That answer was not known on Nov. 3.

My preference was to reject all bids and rebid—but this time include direct competition and ask for a best and final offer. This matter was not time sensitive, since the Housing Dept. has been using Excel for a decade. The Council instead asked that the answer be provided in one week at the next council meeting. Six weeks later, the response came back—and two local direct competitors had never been notified about the RFP. (Six weeks in my view would have been plenty of time to get a bid from the the two local competitors).

Now there is nothing sneaky here. It is actually our fair and transparent process. You see, whenever we want to buy a car, paper products or software we use BIDSYNC out of Utah. BIDSYNC is a vendor community that bids on government projects/services that our city subscribes to annually. It is a quick way to hit a large universe of vendors. However, not every vendor is part of BIDSYNC.

So with that said, the software was selected and it may very well do everything promised. But I have found not having direct competition causes inflated prices. With the current recession, software companies are discounting as much as 70 percent and the city should get those same discounts. I spoke with a CFO at a company with approximately 100 employees that uses the same software that was selected and found out that they pay half the price we were quoted on the software subscription. A private sector CFO can really work over vendors to get the best price—we do not have that option with government procurement as "shopping of bids" is not allowed. If we were to do this then government might be accused of playing favorites.

The non-tech analogy I gave at the council meetings was: Let's say the city wanted to buy an American vehicle for a code enforcement officer and the bid went out to the vendors and we got three replies: Ford, John Deere and Caterpillar. Well certainly they are all American vehicle manufacturers—however, this is not direct competition, as John Deere makes tractors and Caterpillar makes construction equipment. Therefore Ford would win the order. But at this point if we picked up the phone or emailed General Motors and Chrysler to bid, my guess is that the final price from Ford would be lower due to the direct competition.

At the Dec. 15 Council meeting, this item required a vote of the council to approve. So knowing that direct competition lowers the price and another company was paying half of what we were paying I could not support this item.

My larger worry is that if we decide to roll out this software to other departments we have set the price artificially high. I would rather negotiate up front to get the best price or have price tiers already negotiated based on expansion.

I now have a Facebook page for my tenure on the city council. Here is the link.

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